Productivity and regulation: Friends or foes?

Queensland Economics Teachers' Association Annual Conference

22 August 2025

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Dr Karen Hooper, Commissioner

Acknowledgement of traditional custodians

The Queensland Productivity Commission acknowledges Aboriginal peoples and Torres Strait Islander peoples as the Traditional Owners and custodians of the land.

We recognise their connection to land, sea and community, and pay our respects to Elders, past, present and emerging.

Who we are, what we do

Queensland Productivity Commission

- Independent advisor to Queensland Government
- Provide evidence-based policy advice on complex social, economic and regulatory policy issues
- Statutory body with a Board, chaired by Productivity Commissioner
- Established in April 2025, under *Queensland Productivity Commission Act 2025*

Inquiries and Research

- ❑ inquiries into economic, social and regulatory issues (upon Direction from the Minister)
- ❑ research into economic, social and regulatory issues
- ❑ advice to the Minister as requested

Office of Best Practice Regulation

- ❑ administer Better Regulation Policy - applies to development & review of regulation
- ❑ administer Regulator Performance Framework - applies to regulator practice
- ❑ administer, monitor or review stated regulatory matters (upon direction/request from Minister)

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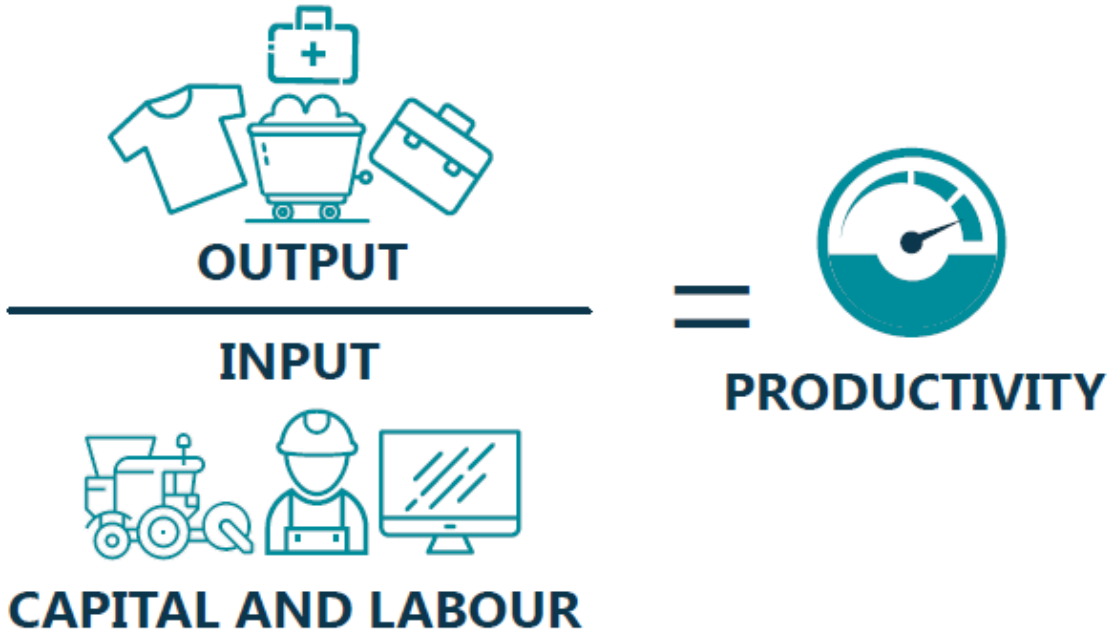
Outline

- What is productivity?
- Why productivity matters
- Productivity policy levers
- How does regulation affect productivity?
- Case study: Insights into regulation and construction productivity
- Promoting productivity in the classroom

What is productivity?

What is productivity?



Key concepts

Labour productivity is the output produced per unit of labour input (hours worked). Growth in labour productivity means that workers can produce more output per hour worked, increasing real wages and income over time. Labour productivity growth is affected by changes in capital deepening and multifactor productivity.

Capital deepening is the amount of capital available for each worker. Capital can improve the productivity of labour. For example, if a factory invests in more tools and machinery, workers will be able to produce more output in one hour of work than they were able to previously.

Multifactor productivity (MFP) reflects the overall efficiency of the use of labour and capital in the production process. MFP measures the efficiency of production by measuring how new technologies or work practices allow existing labour and capital to be used more effectively.

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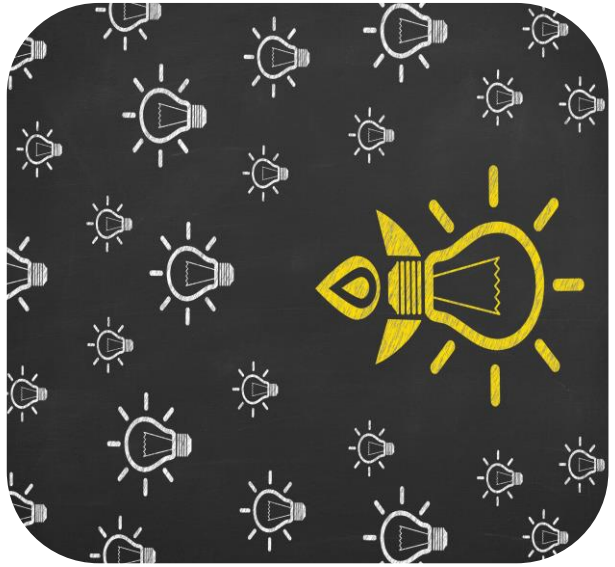
Productivity drivers

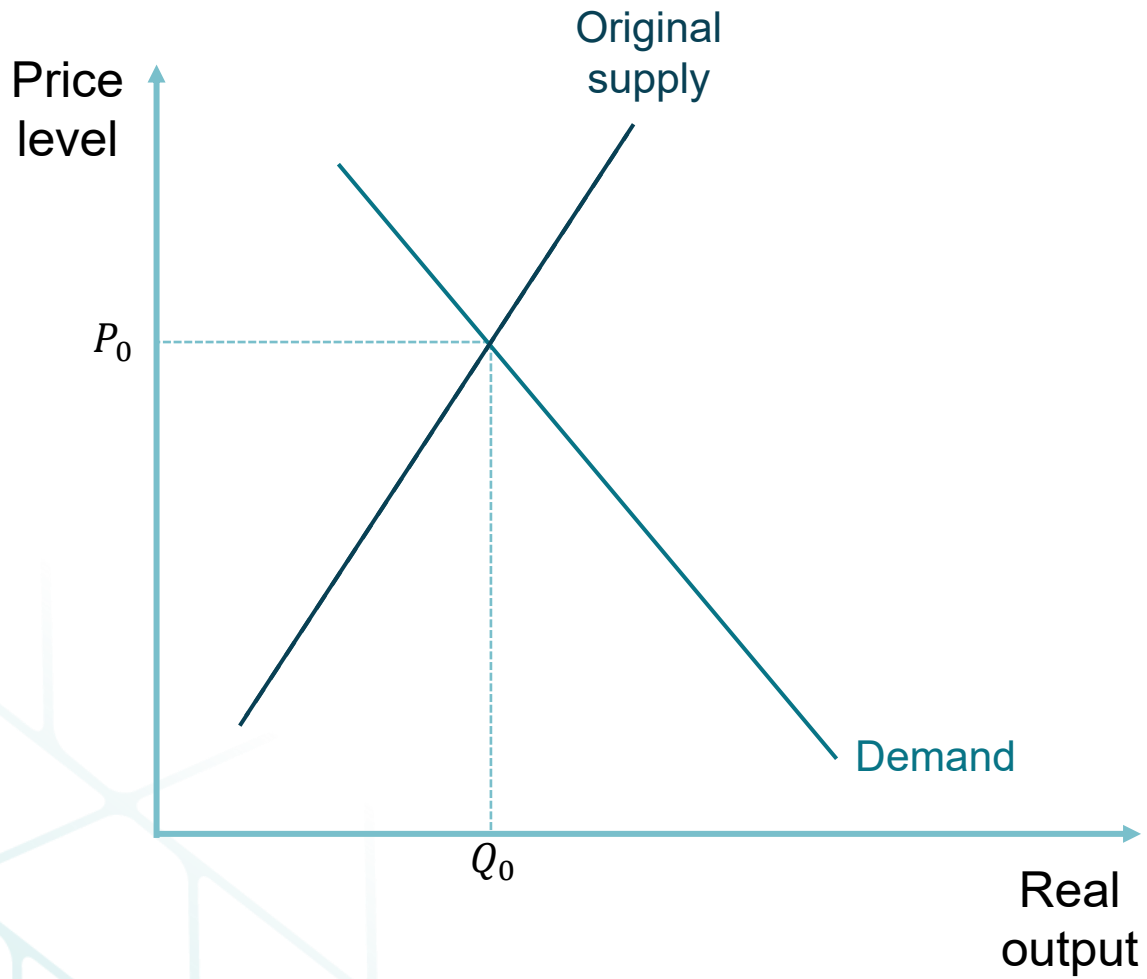
Investment

Human capital

New technology



Productivity raises economic capacity (supply), reduces prices



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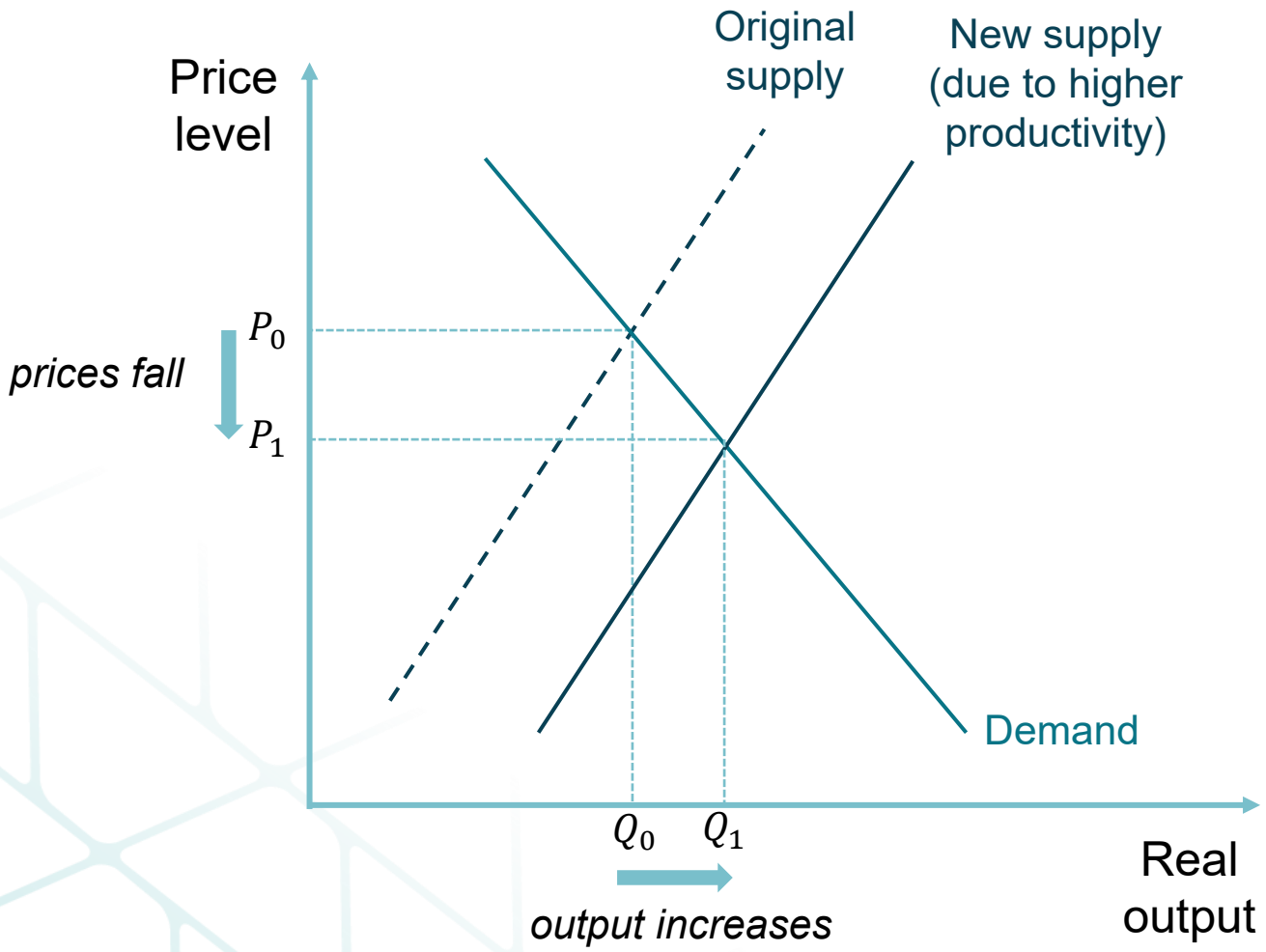

Why productivity matters

Why is productivity so important?

Productivity isn't everything, but in the long run, it's almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.

Paul Krugman, Nobel Memorial Prize winner in Economic Sciences

Australia should be a place where children born today can expect to live better and more prosperous lives than the generations who have come before them. Productivity growth is essential to fulfilling that promise.

Danielle Wood, Productivity Commission Chair, August 2025

…productivity growth is central to our future prosperity. It means rising living standards, higher real wages, a lift in our collective wealth, a bigger pie to help finance the public services the community values and less inflation pressure.

Phillip Lowe, former RBA Governor, September 2023

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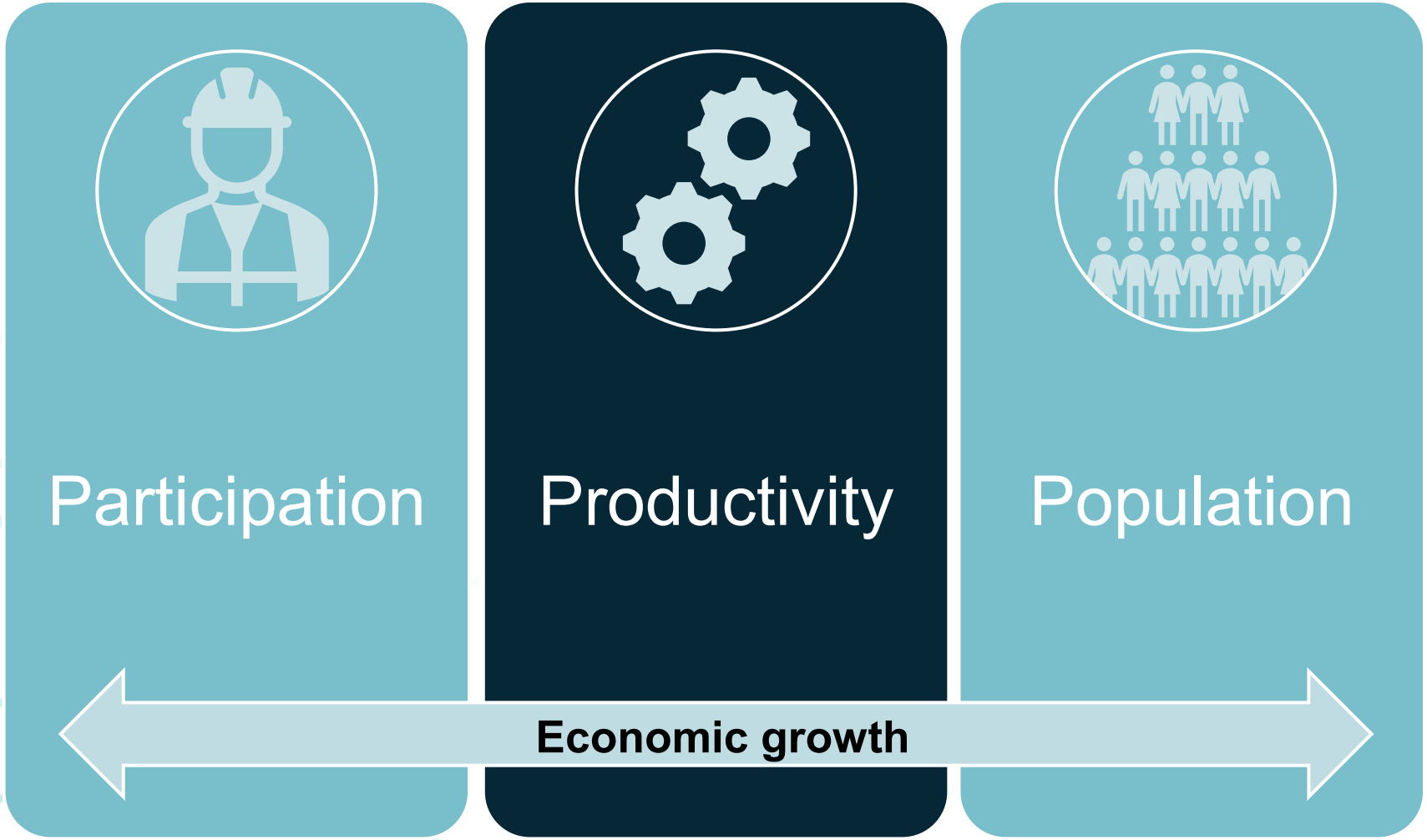
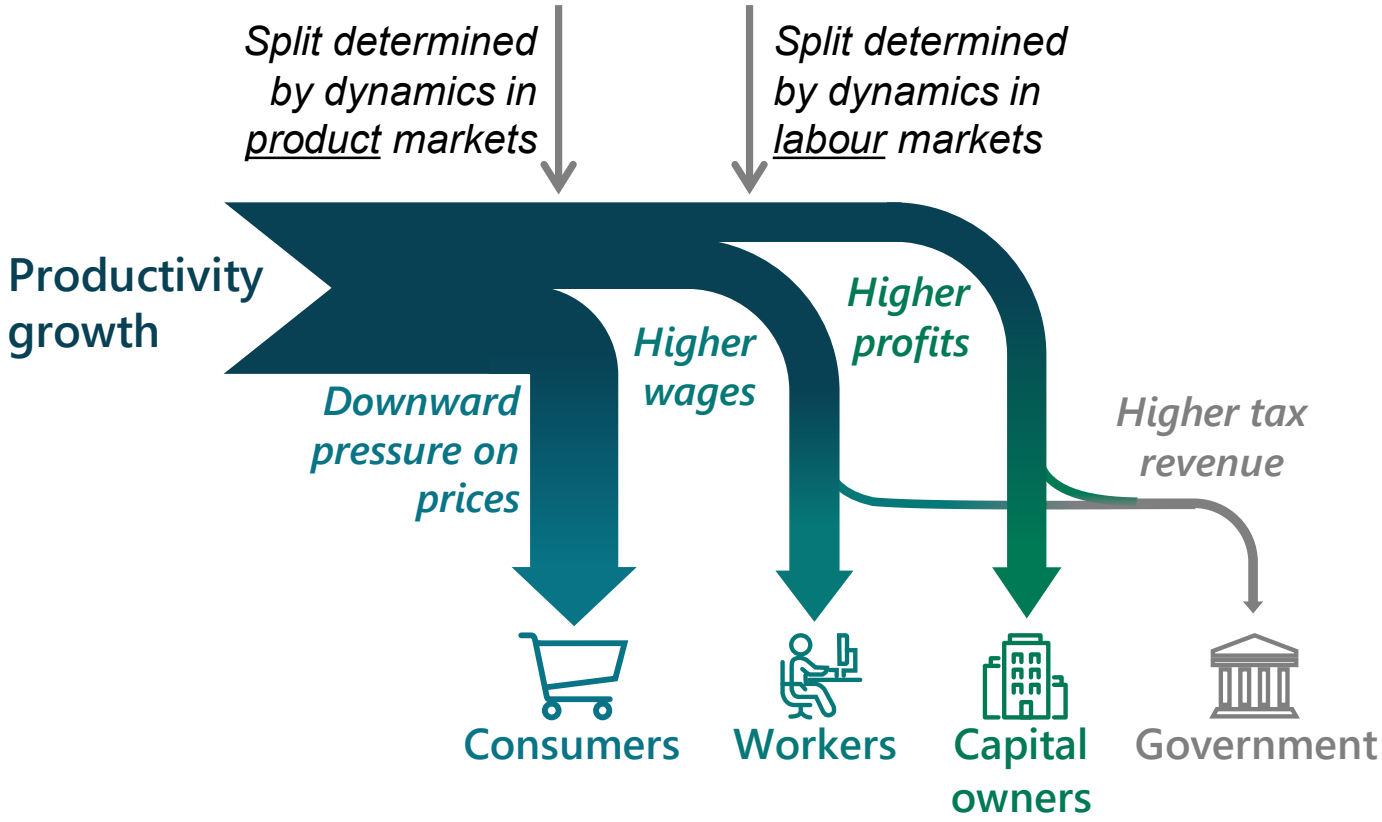
Productivity drives sustainable economic growth and prosperity

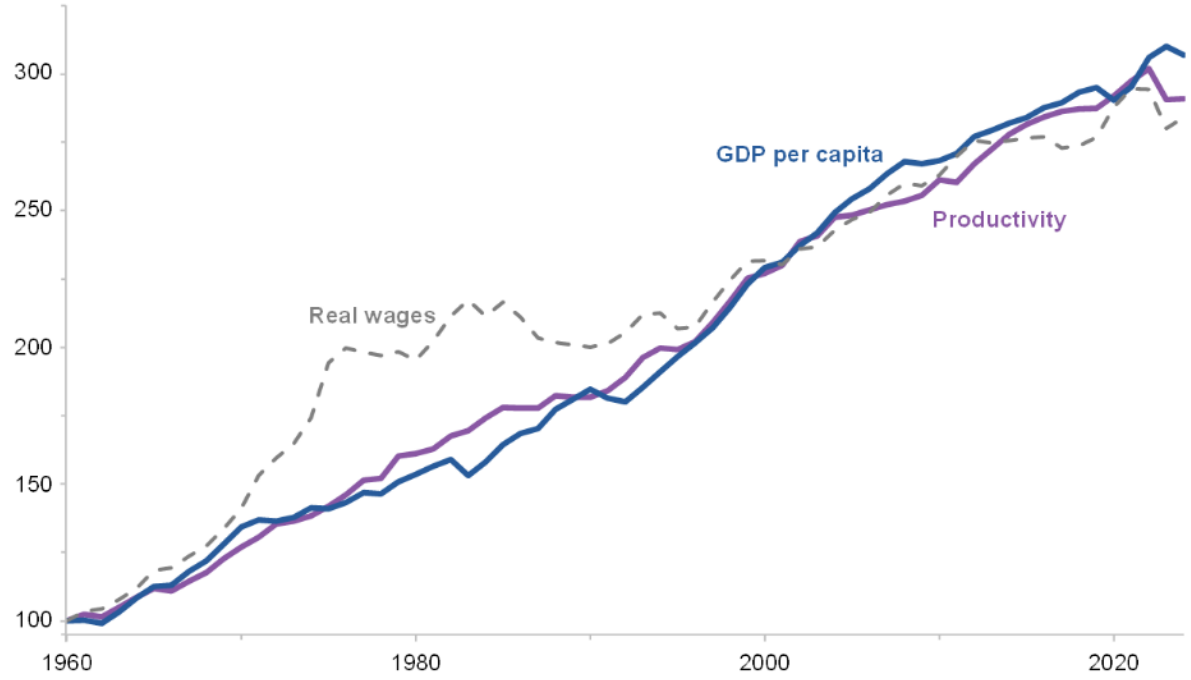


Benefits of productivity



Productivity growth has slowed

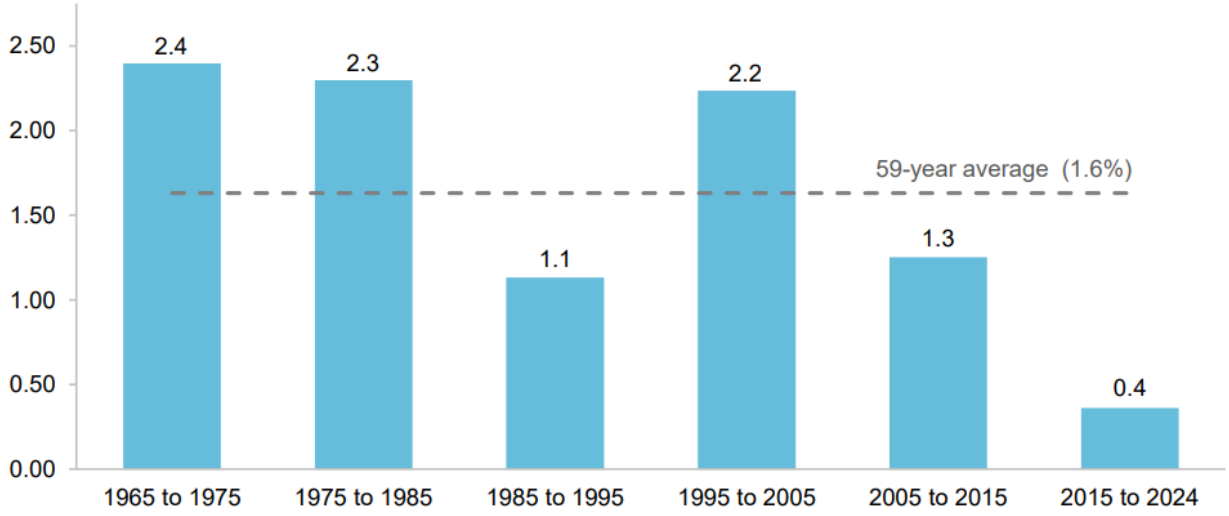
Labour productivity, GDP per capita and real wages, index, 1960=100, 1960–2022[a]



a. See PC (2023d, figure 1.5) for methodological notes relating to the real wages historical index.

Source: PC estimates using ABS (2024a); Bergeaud et al. (2016); PC (2023d, figure 1.5).

Average annual labour productivity growth[a]



a. 2015 to 2024 average is calculated over a nine-year period. Labour productivity calculated as GDP per hour worked, GDP data sourced from the ABS between 1964-65 and 2022-23. Hours worked data from Penn World Tables for between 1964-65 and 1973-74 and from the ABS between 1974-75 and 2023-24.

Source: PC estimates using ABS (2024a); Feenstra et al. (2015).

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What’s driving the productivity slowdown?

Less transformative technological developments
Slower innovation diffusion and uptake/use of data and digital technology

Stalling business investment

Decline in economic dynamism and competition

Growth in the services sector

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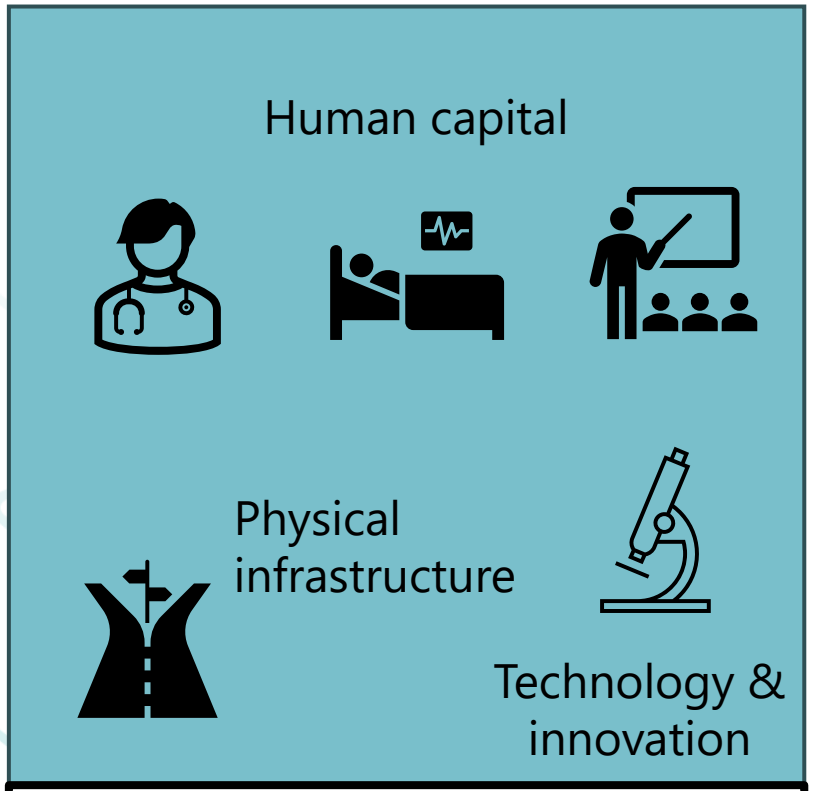
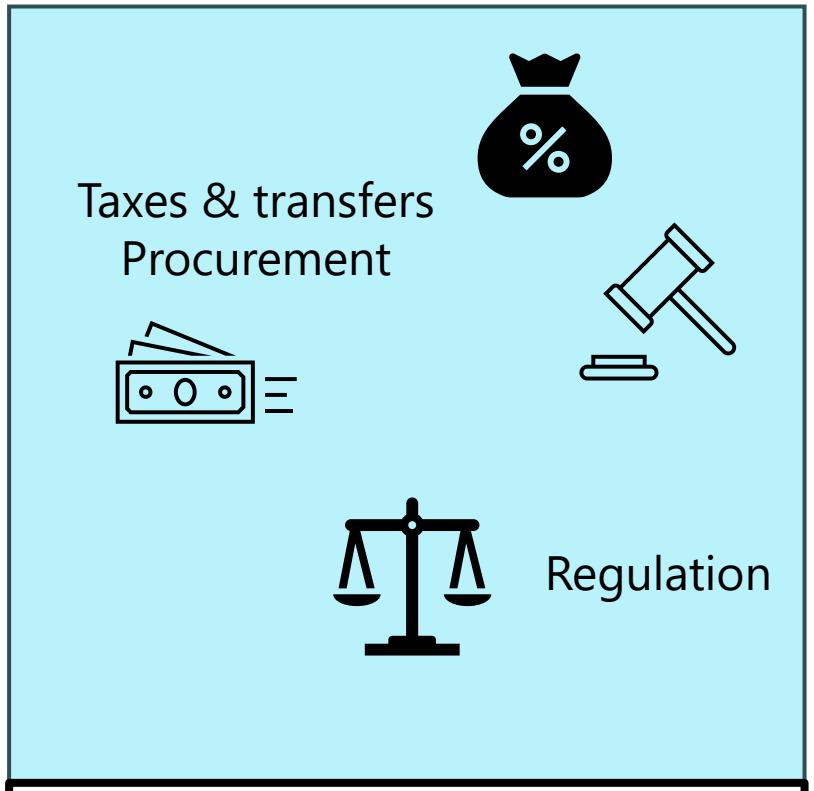
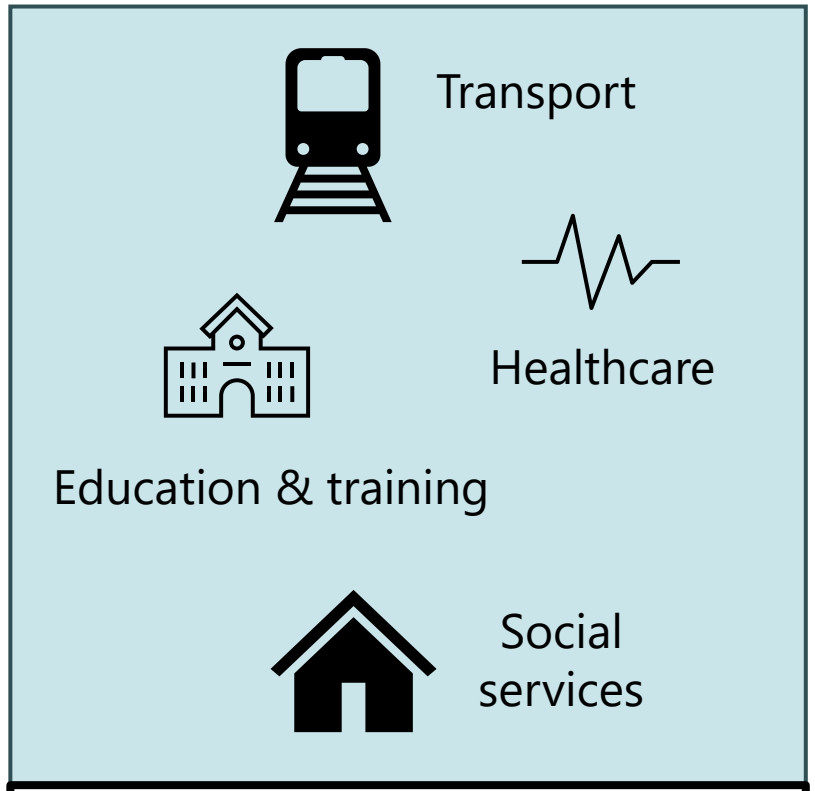
Productivity policy levers

Governments influence productivity growth by:







Investing in enablers of growth

Affecting incentives

Delivering services

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How does regulation affect productivity?

What is regulation?

- Regulation is generally considered to include any law or ‘rule’ that influences the way people behave.
- Regulation may impose mandatory requirements, or it may seek a change of behaviour by providing incentives to improve economic, environmental or social outcomes.
- Regulation includes not only Acts made by Parliament but also other subordinate and quasi-legislative instruments such as Regulations, standards and notices, mandatory industry codes of practice, accreditation schemes and local government by-laws.

Responsibility for regulation varies across the three levels of government

The **FEDERAL GOVERNMENT**

STATE/TERRITORY GOVERNMENTS

LOCAL COUNCILS

Source: Parliamentary Education Office

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Why do governments regulate?

To manage risk and safeguard the community and the environment.

Role of regulation:

- support the efficient operation of markets

  (e.g. to promote competition, establish property rights, trust, enforce contracts and information disclosure)

- address negative externalities

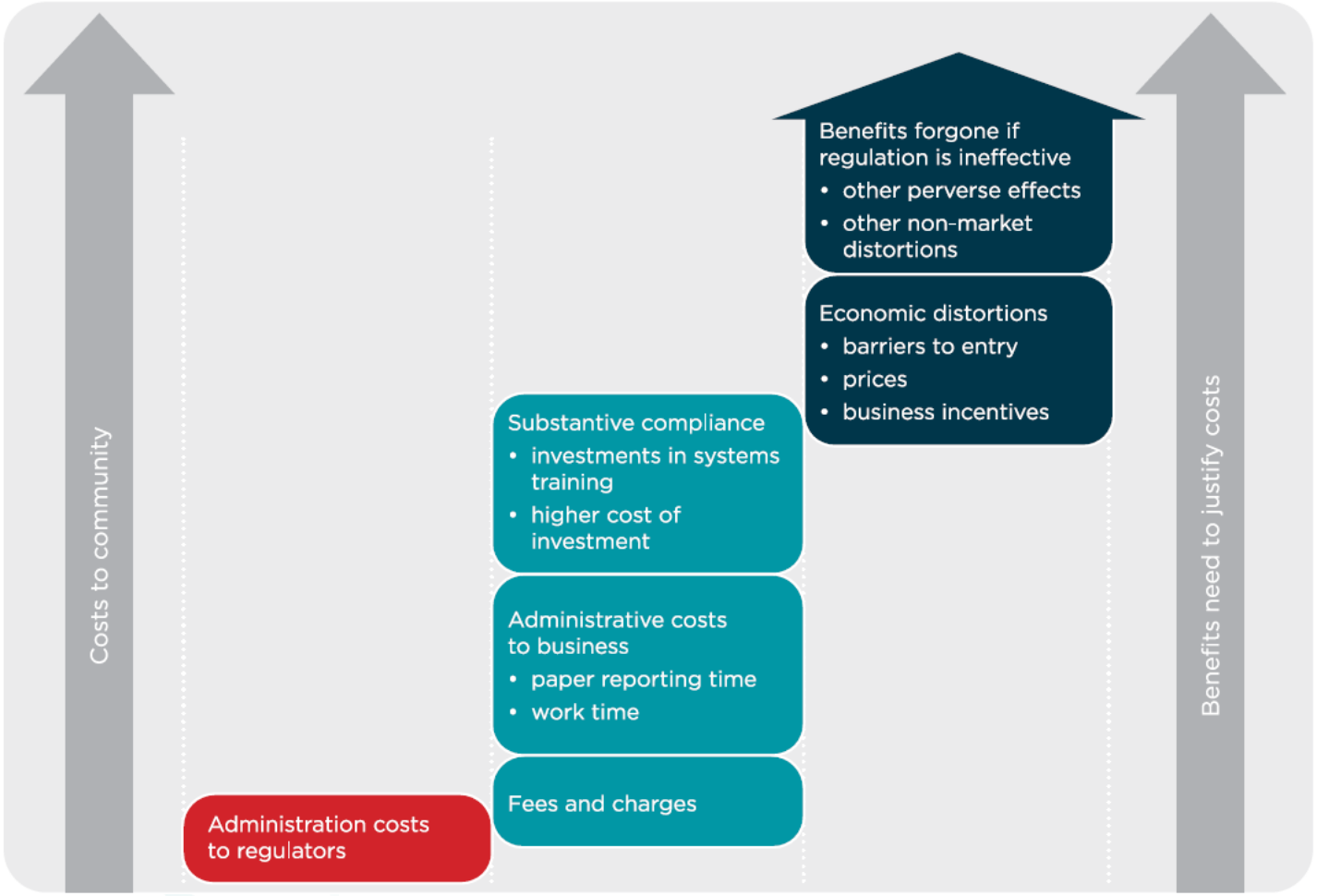
  (e.g. pollution)

- mitigate risks that the market alone cannot manage

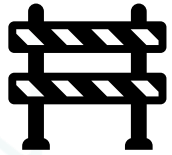
  (e.g. health and safety, occupational licensing)

- underpin the delivery of public goods and infrastructure

Regulation imposes costs

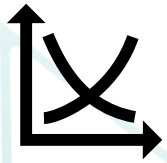


Regulation can impose significant efficiency costs



Barriers to entry

- Regulation can restrict competition



Price distortions

- Regulation can distort pricing signals and lead to misallocation of resources

Business disincentives

- Regulation can distort business decisions affecting investment, innovation and employment

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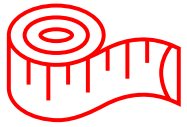
Regulatory burden



Est. annual **compliance costs to business** of Qld-based regulation	**$3.5 - $7 billion**

Est. annual **cost to administer** and enforce Qld regulation	**$2.6 - $3.1 billion**

Broader **economic costs**	Likely to be **at least double** these direct costs.

Source: Queensland Productivity Commission (2021)

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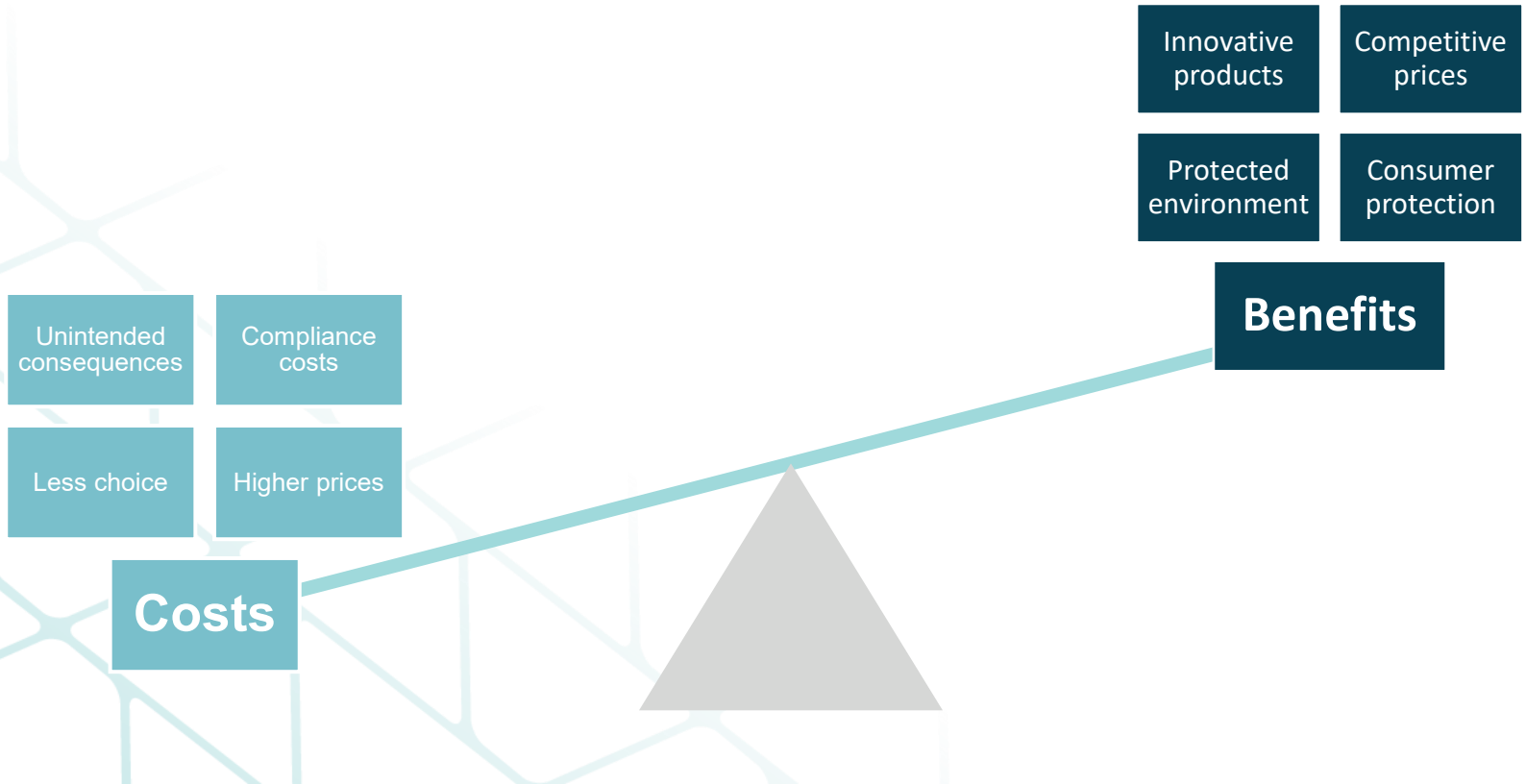
How do we get regulation right?

Regulatory impact analysis aims to ensure that regulation is:

- **Necessary** – there is a convincing problem and a case for government action
- **Effective** – the regulation will achieve its objective
- **Efficient** – delivering the maximum net benefit to the community



Why does regulation need regular review?

Changing technology and conditions and preferences

Regulation can impede new technology adoption and innovation
Changes in consumer preferences and behaviour can make regulation ineffective

Delayed adverse and/or cumulative impacts

Regulation may not be working as intended or produce unintended consequences
Regulation may be interacting adversely with other legislation

Duplication or inconsistency

Regulation may limit mobility of labour and capital or trade in goods and services due to regulatory differences across borders

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Alternatives to regulation

Do nothing	Incentives or market-based instruments	Education & information
No action – that is, relying on the market, in conjunction with existing general tort, liability and insurance laws.	Seek to reduce any existing market distortions that contribute to the inefficient allocation of goods and services.	Informing and educating businesses and individuals will not only improve their knowledge and decision-making but can also influence or shift behaviour.
Examples: Consumer protections under Australian Consumer Law. Making legal remedies more accessible or cheaper	**Examples:** Government taxes, charges or subsidies Tradeable property rights	**Examples:** Guidelines Labelling Rating systems Government publications

Case study: Airlines and child safety

US National Transport Safety Bureau policy proposal in 2003:

Policy objective - to reduce child fatalities in passenger flights

Policy option - new regulation to mandate child booster or safety seats

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Policy outcome:
Analysis showed the policy would:
- save one life by passenger plane per year

Case study: Airlines and child safety

US National Transport Safety Bureau policy proposal in 2003:

Policy objective - to reduce child fatalities in passenger flights

Policy option - new regulation to mandate child booster or safety seats

Policy outcome:
Analysis showed the policy would:
- save one life by passenger plane per year
- but, result in 6-20 more child deaths by car in US per year

Proposal was withdrawn in 2005 due to projected impact on loss of life.

Considering changes in behaviour is critical when evaluating policy options.

Rigorous analysis helps to avoid unintended consequences.

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Insights into regulation and construction productivity

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Inquiry Terms of Reference

Opportunities to improve productivity in the construction industry

Whole of Queensland focus

- Government procurement
- Land use regulation
- Regulation of building activity
- Labour markets

Without compromising safety and quality outcomes

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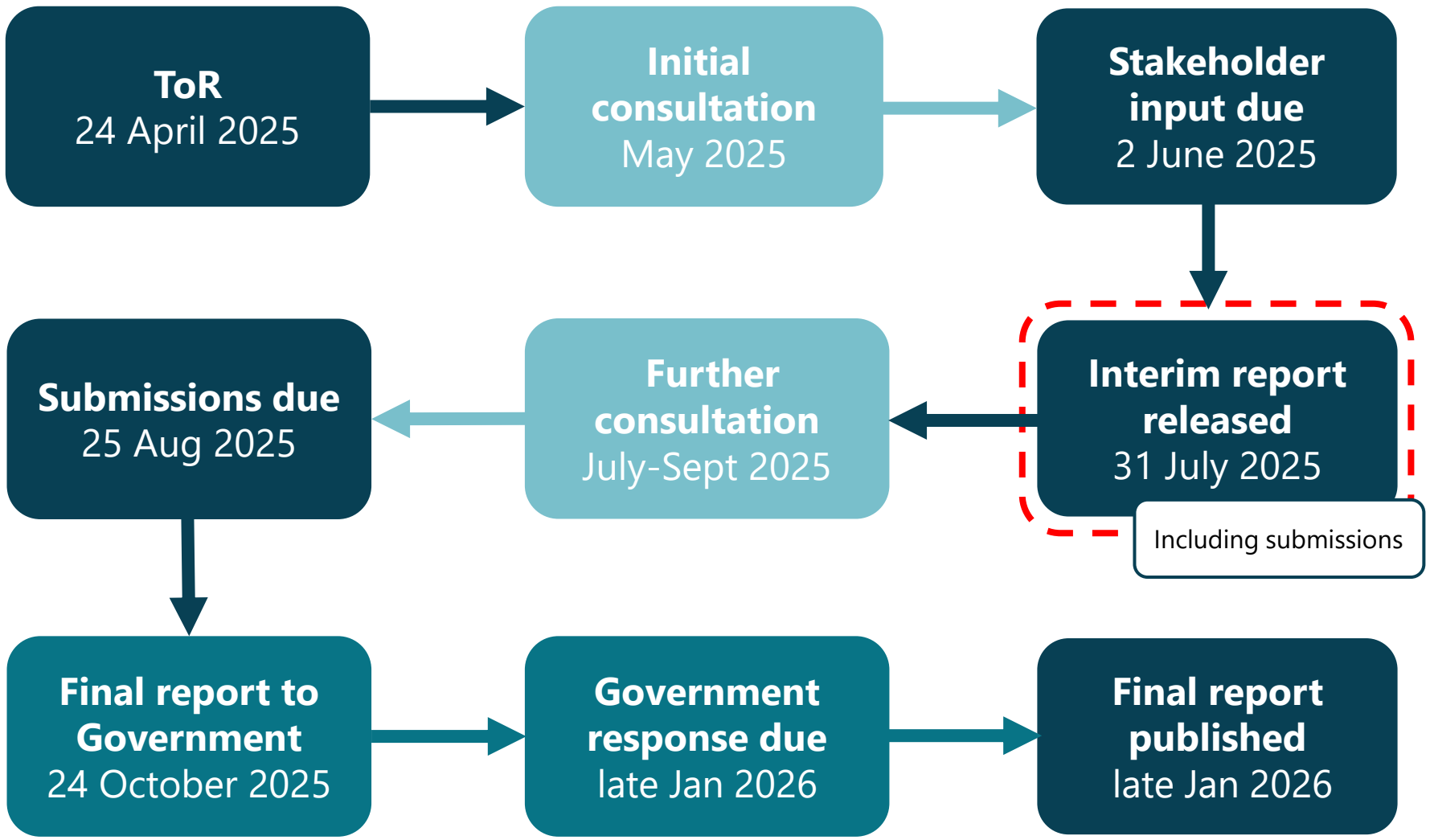
Inquiry stages and timing



Consultation

52 stakeholder meetings

Stakeholders included:

- industry bodies
- trade unions
- businesses
- Queensland Government agencies

4 regional visits

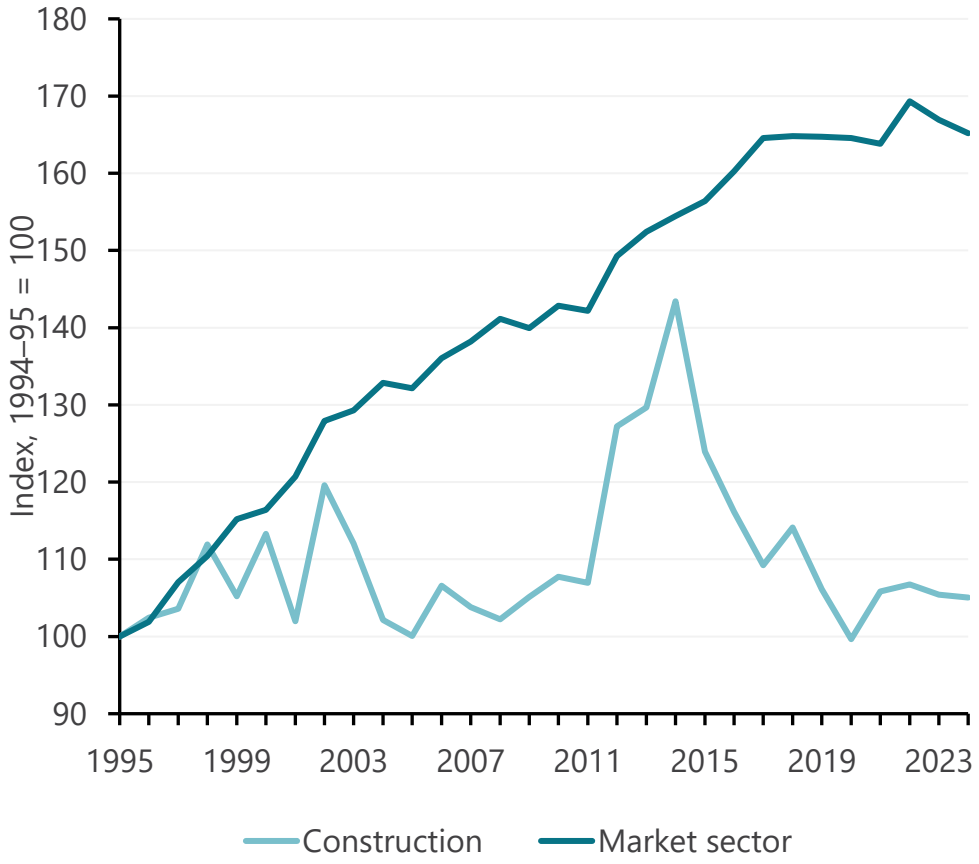
- **in-person** (Townsville and the Gold Coast)
- **virtual** (Gladstone and Toowoomba)

80+ public submissions

Productivity outcomes are poor

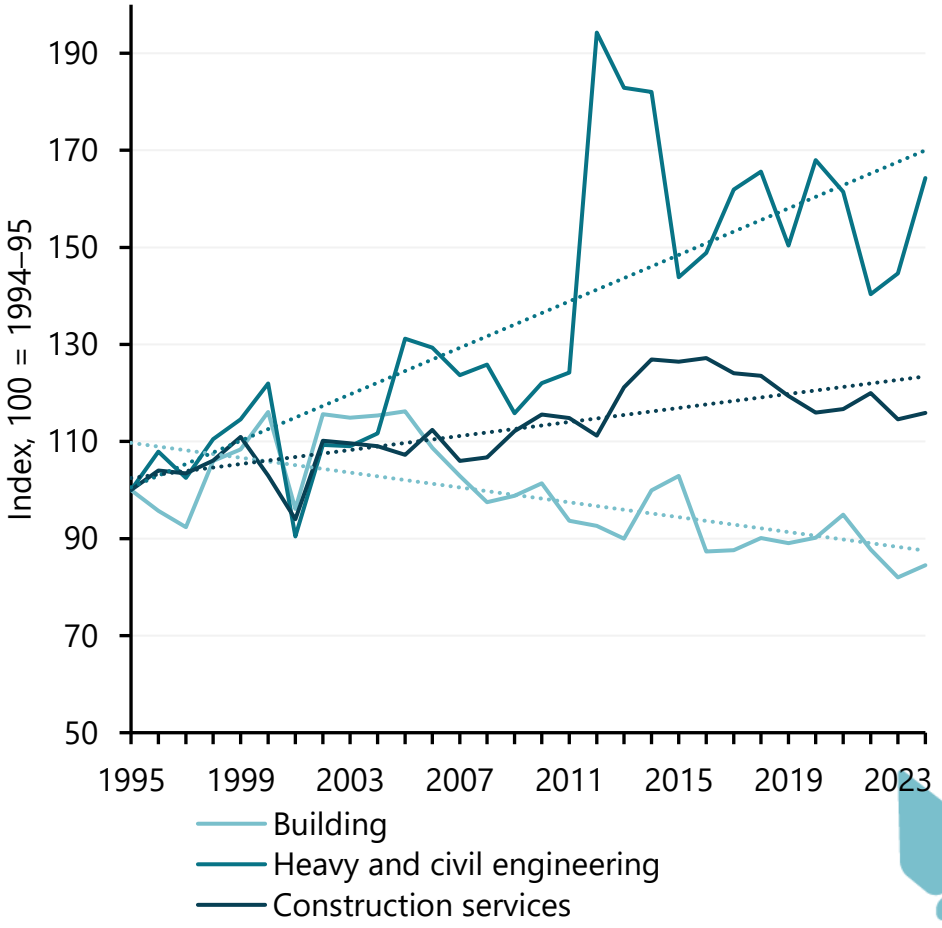
Productivity growth in construction industry has been well below the rest of the economy

Labour productivity, Queensland



However, not all parts of the industry perform the same

Labour productivity, Australia



Source: QPC based on ABS 2024, 2025b, 2025c, 2025a

The industry is diverse:

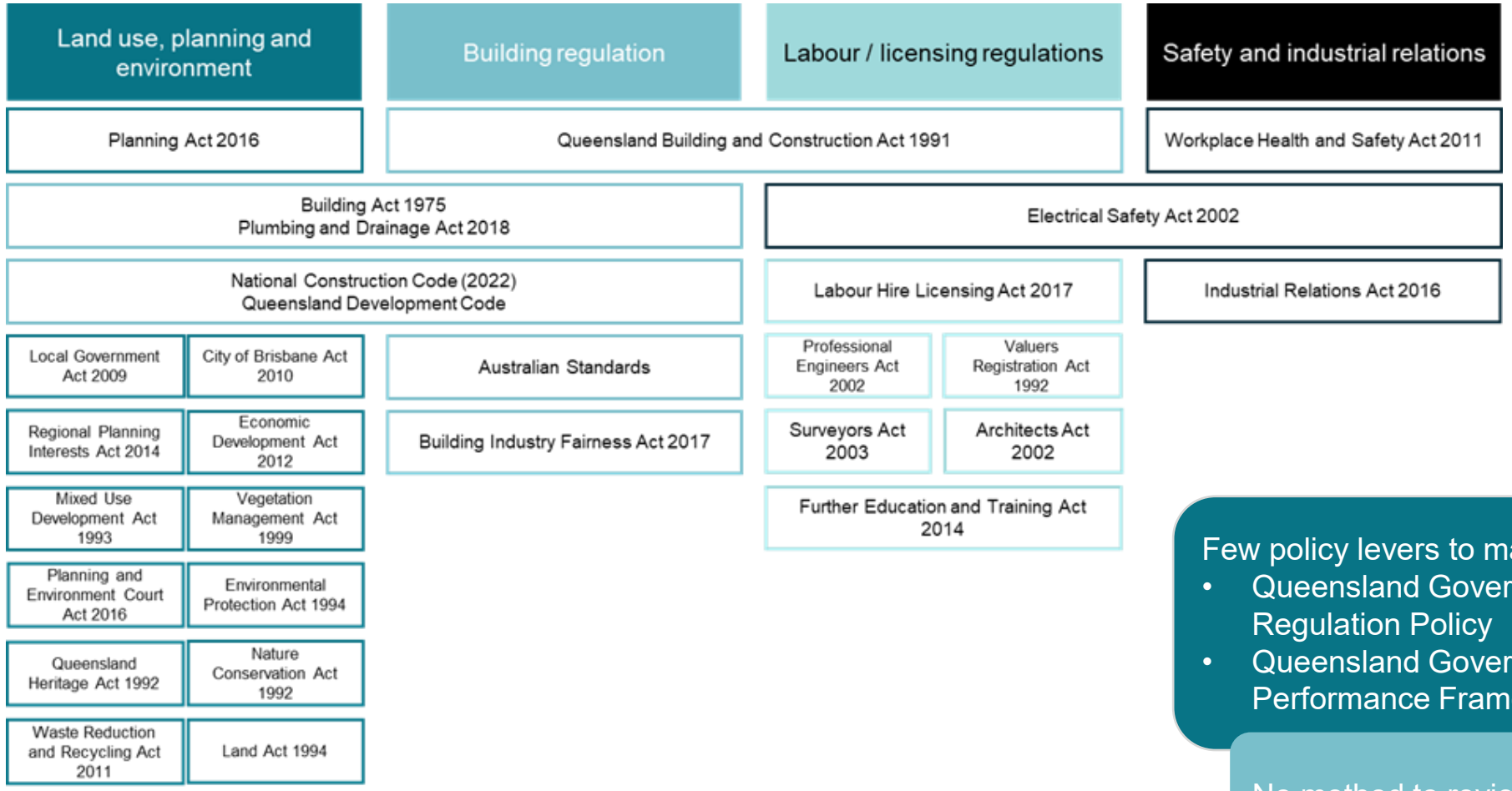
Key issues affect industry segments differently

	RESIDENTIAL BUILDING CONSTRUCTION	NON-RESIDENTIAL BUILDING CONSTRUCTION	CIVIL CONSTRUCTION
Project type	Detached houses Townhouses and duplexes Apartments and multi-residential units Renovation activity	Office towers and commercial complexes Hospitals, schools, government buildings Factories, warehouses, retail developments	Railways, airports Roads, highways, bridges, tunnels Water supply and sewage systems Mines and dams Utilities and energy infrastructure
Sub-sector characteristics	Mix of small and large contractors Traditionally lowest average wages of the three sectors	Mix of small and large contractors Faces competition with the mining industry and interstate projects Workforce tends to remain within each industry from project to project	Large multinational firms and specialised civil contractors

Key issues identified

- Building regulation
- WHS
- Government Procurement
- National Construction Code
- Labour shortages
- BPICs
- Land use regulation
- Financial regulations

Regulatory Framework

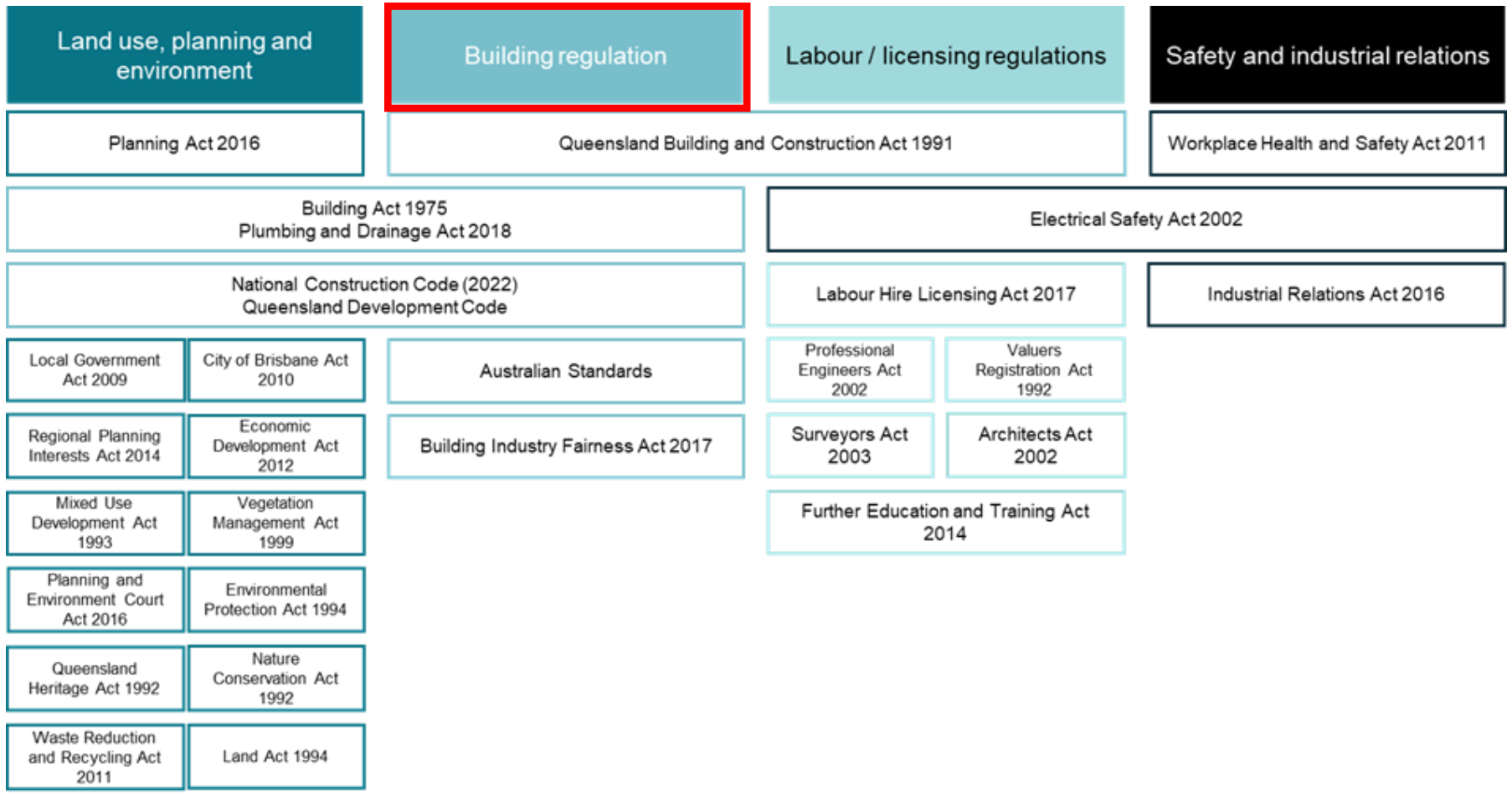


Few policy levers to manage regulation:

- Queensland Government Better Regulation Policy
- Queensland Government Regulator Performance Framework

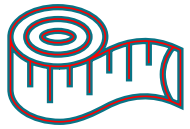
No method to review stock of regulation

Regulatory Framework



Regulation of building activity

What stakeholders told us:



Regulation has become increasingly complex and burdensome

Government not assessing regulation before making changes
e.g. National Construction Code (NCC) and financial regulations

Workplace health and safety procedures being used for industrial goals unrelated to safety

Regulator performance is lacking

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Next steps

Further consultation

Testing of recommendations

Finalisation of recommendations

Implementation and prioritisation

Final report due to Queensland Government – 24 October 2025

Promoting productivity in the classroom

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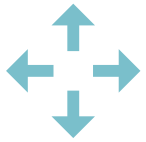
Some ideas



Sharing ‘personal’ productivity hacks

Illustrating impact of productivity growth on supply curve

Calculating productivity measures

Discussing how technology affects productivity

Applying regulatory impact analysis

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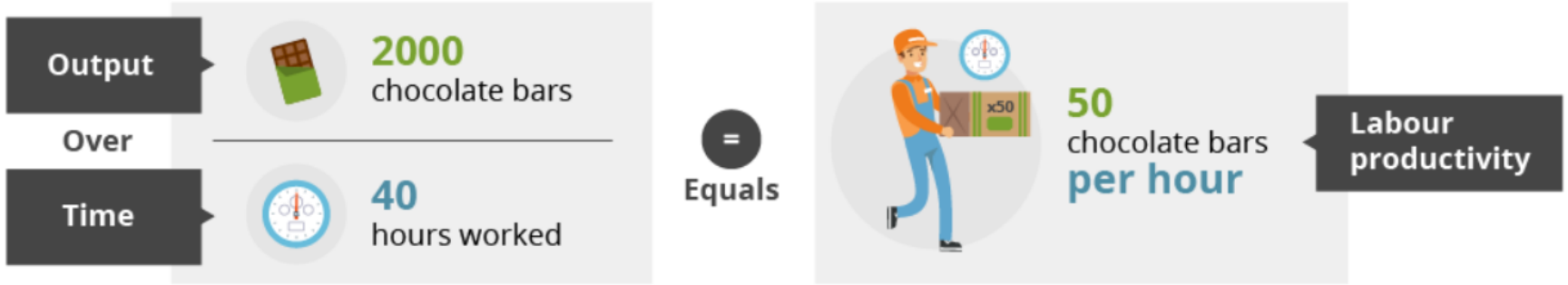
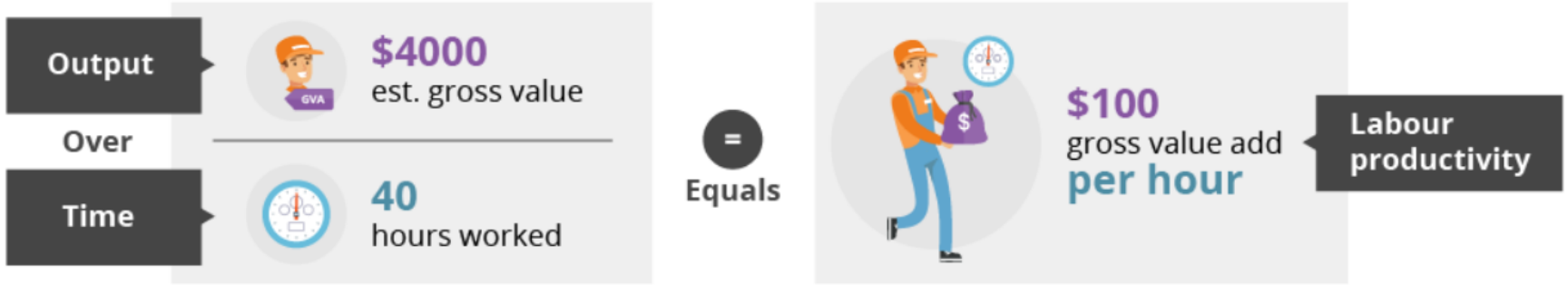
How does productivity measurement work in practice?

Suppose Ben works in a chocolate factory. Ben's boss, Colin, wants to measure the labour productivity of his workforce to make operational improvements at the factory. Colin estimates that during a 40-hour work week, Ben produces 2000 chocolate bars. So Colin calculates Ben's labour productivity as:



While this allows Ben's performance to be compared to other employees in the chocolate bar branch, Colin cannot compare Ben to employees in the chocolate biscuit division. To allow for comparison, Colin estimates the gross value added of Ben producing 2000 chocolate bars is $4000, or $2 profit per bar. Colin then calculates Ben's labour productivity as:



Source: Productivity Commission

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Example: Sugar consumption

The World Health Organisation recommends sugars make up no more than 10% of our total dietary energy intake (kilojules).

The level of sugar we actually consume is 11% of daily kilojoules among adults and 13% for children. … just over half of Australians exceed the recommended 10% daily limit.

Most concerning, the bulk of added sugars (81%) Australians consumed in 2011-12 were from sugary drinks and discretionary food. That is, unhealthy food, often packed with cheap sugar.

Source: Health and Wellbeing Queensland

What are the issues that economists might consider in assessing policy options to respond to this concern?

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